

Message Text

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ACTION EUR-12

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SUBJECT: THE GREEK ECONOMY AT YEAR'S END

REF: (A) ATHENS 1953; (B) ATHENS 6493; (C) ATHENS 8518;
(D) BRUSSELS 13821

1. THE FOLLOWING IS A SUMMARY OF SUBJECT AIRGRAM BEING SENT ALL ADDRESSEES.
2. THE ECONOMIC ACCOMPLISHMENTS AND FAILURES OF THE CARAMANLIS GOVERNMENT WERE HOTLY DEBATED DURING THE ELECTION CAMPAIGN, WITH THE INCUMBENTS EMPHASIZING THE POSITIVE--THE DRAMATIC TURNAROUND IN THE BALANCE OF PAYMENTS AND SATISFACTORY GROWTH RECORD--AND THE LIMITED OFFICIAL USE

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CONTENDERS, THE NEGATIVE--THE DEARTH OF INVESTMENT, CONTINUING INFLATION, AND THE STILL-LARGE INCOME DISPARITIES BETWEEN URBAN AND RURAL ELEMENTS OF THE POPULATION. EC ACCESSION CAME IN FOR ITS SHARE OF PRAISE BUT ALSO CRITICISM, ESPECIALLY FROM PASOK WHOSE DIRE PREDICTIONS OF ADVERSE CONSEQUENCES FOR GREEK FARMERS FOLLOWING EC MEMBERSHIP APPEARED TO HAVE STRUCK RESPONSIVE CHORDS AMONG THIS HIGHLY SUBSIDIZED SEGMENT OF THE ELECTORATE, GENERALLY ILL-

INFORMED BUT CLEARLY UNCERTAIN ABOUT THE COMMUNITY'S POTENTIAL IMPACT ON ITS FORTUNES.

3. A MORE DISPASSIONATE LOOK AT THE GREEK ECONOMY AT YEAR'S END, HOWEVER, SUGGESTS THAT ON THE WHOLE THE ECONOMY REMAINS IN FAIRLY GOOD SHAPE. THE GROWTH RATE HAS, TO BE SURE, SLOWED DURING THE SECOND HALF OF THE YEAR, DUE TO A DROP IN AGRICULTURAL OUTPUT AND A DECELERATION OF INDUSTRIAL PRODUCTION. NEVERTHELESS REAL GROWTH WILL STILL BE BETWEEN 4-5 PERCENT AND STEADY AND BALANCED GROWTH SEEMS PREFERABLE TO HIGH BUT UNSUSTAINABLE LEVELS. THE BALANCE OF PAYMENTS, DESPITE A SLOWLY WIDENING TRADE GAP, CONTINUES TO BE ACCEPTABLE AND AN UNANTICIPATED \$100 MILLION INCREASE IN RESERVES WILL BE BANK OF GREECE GOVERNOR ZOLOTAS' CHRISTMAS PRESENT THIS YEAR. THE RATE OF INFLATION, STILL STUBBORNLY STICKING AT AROUND 12 PERCENT, IS TOLERABLE, IF NOT DESIRABLE. AND UNEMPLOYMENT IS NOT AN ECONOMIC OR SOCIAL PROBLEM.

4. ELECTION RHETORIC ASIDE, THE OPPOSITION EFFECTIVELY COUNTERED THE GOVERNMENT'S "THE SAME BUT BETTER" POSTURE ON ECONOMIC MANAGEMENT BY TARGETING ON SEVERAL OF THE ECONOMY'S LONGER-TERM VULNERABILITIES. AMONG THE MOST SERIOUS, OF COURSE, IS THE STAGNATION OF INVESTMENT WHICH IF PROLONGED WILL INEVITABLY HAVE SERIOUS GROWTH, BALANCE-OF-PAYMENTS AND PRICE REPERCUSSIONS. ON THE GROWTH SIDE, AS CAPACITY LIMITATIONS ARE ULTIMATELY REACHED IN VARIOUS INDUSTRIES, NEW INVESTMENT WILL BE NEEDED NOT ONLY TO EXPAND OUTPUT BUT ALSO TO RAISE PRODUCTIVITY LEVELS. AN ENHANCED EXPORT CAPABILITY LIMITED OFFICIAL USE

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WILL BE NECESSARY TO COVER IMPORT GROWTH, PARTICULARLY IF INVISIBLES ARE UNABLE TO KEEP PACE. AND IF PRODUCTIVE CAPACITY FAILS TO MATCH CONSUMPTION DEMAND, IT WILL HAVE TO BE SUPPLEMENTED BY IMPORTS OR RATIONED BY PRICE INCREASES, NEITHER OF WHICH WILL BE HEALTHY FOR THE ECONOMY.

5. INFLATION REMAINS A PARTICULARLY INTRACTABLE PROBLEM WHEN VIEWED AGAINST THE BACKGROUND OF BOOMING CONSUMER DEMAND, FALTERING INDUSTRIAL PRODUCTION, RAPID GROWTH IN MONEY SUPPLY, PENT UP WAGE DEMANDS AND LARGE BUDGETARY OUTLAYS ON DEFENSE AND SOCIAL PROGRAMS. EARLIER INDICATIONS OF GOVERNMENT INTENT TO INTRODUCE STRONG ANTI-INFLATIONARY POLICIES AFTER THE ELECTION, AIMED AT RESTRAINING INCREASES IN MONETARY AGGREGATES AND INCOMES, MAY BE DIFFICULT TO IMPLEMENT IN VIEW OF ENDEMIC INFLATIONARY EXPECTATIONS AND THE SURPRISING ELECTION SHOWING OF PASOK WHICH GARNERED MUCH OF ITS SUPPORT BY PROMISING HIGHER MINIMUM WAGES TO WORKERS, BETTER SUPPORT PRICES FOR FARMERS AND INCREASED PENSIONS FOR ALL.

6. EC ENTRY NEGOTIATIONS ARE LIKELY TO BE FURTHER COMPLICATED BY THE STRONG ELECTION SHOWING OF PASOK WITH ITS VIGOROUS CAMPAIGN AGAINST EC MEMBERSHIP. WHETHER OR NOT PAPANDREOU SUCCEEDS IN HIS STATED INTENTION TO BRING THE ISSUE TO THE PEOPLE THROUGH SOME

KIND OF PUBLIC REFERENDUM, IT IS ONE QUESTION ON WHICH HE IS UN-
LIKELY TO MODERATE HIS STANCE. IN ANY CASE, CARAMANLIS CERTAINLY
WILL FIND IT MORE DIFFICULT TO GAIN PARLIAMENTARY APPROVAL FOR
THE AGREEMENT HIS NEGOTIATORS EVENTUALLY WILL REACH.

7. GREEK POLICYMAKERS ARE, OF COURSE, PAINFULLY AWARE THAT GREECE'S
ECONOMY IS AS MUCH INFLUENCED BY ITS ECONOMICALLY LARGER OECD AND
OPEC NEIGHBORS AS IT IS BY APPROPRIATE DOMESTIC POLICIES. THIS
INFLUENCE IS CLEAR IN THE BALANCE OF PAYMENTS--EXPORT DEMAND HAS
SLOWED THIS YEAR, OIL PRICE INCREASES HAVE HAD PROFOUND EFFECTS
ON IMPORTS AND ENERGY PRODUCTION, AND INVISIBLES INFLOWS DEPEND
ON THE WHIMS OF TOURISTS, THE FLOW OF WORLD TRADE AND THE LEVEL OF
ECONOMIC ACTIVITY IN GERMANY AND ITS IMPACT ON GREEK WORKERS THERE.
NONETHELESS, GOG ECONOMIC PRIORITIES SEEM CLEAR: THE 1978 BUDGET
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AND THE FISCAL POLICY IT WILL IMPLY; PROMULGATION OF A NEW SET OF
INDUSTRIAL DEVELOPMENT INCENTIVES TO COUNTER LAGGING INVESTMENT;
CONTINUED EFFORTS TO QUICKEN THE PACE OF EC ACCESSION NEGOTIAT-
IONS; AND AN INCOMES POLICY THAT WILL HELP TO STEM INFLATION AND
STILL BE ACCEPTABLE TO ALL PARTIES. MILLS

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